

## Message Text

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SUBJECT: BELGIAN GOVERNMENT ANNOUNCES ANTI-INFLATION MEASURES

1. ON JUNE 7 THE BELGIAN GOVERNMENT UNDER PRIME MINISTER TINDEMANS ANNOUNCED A SERIES OF NEW ANTI-INFLATION MEASURES. THESE WERE ANNOUNCED ONE WEEK AFTER GOB COST OF LIVING FIGURES FOR THE FIRST FOUR MONTHS OF THE YEAR WERE RELEASED SHOWING THAT INFLATION IN BELGIUM IS RUNNING AT AN ANNUAL RATE OF SIXTEEN PERCENT. SINCE THIS RATE IS HIGHER THAN EITHER THE GERMAN OR THE DUTCH RATE, BELGIAN FINANCIAL AUTHORITIES HAVE IN RECENT MONTHS FOUND THAT PRESSURES WITHIN THE "LITTLE SNAKE" WAS BEING PUT ON THE BELGIAN FRANC. IN ADDITION, SOCIALIST OPPOSITION LEADERS WERE REPEATEDLY ACCUSING THE GOVERNMENT OF ALLOWING WORKERS' WAGES TO ERODE FASTER THAN THE NATIONAL PRICE INDEX WAS AUTHORIZING REGULAR WAGE ADJUSTMENTS.

2. ALTHOUGH THE GOB BLAMES RISING WORLD RAW MATERIALS PRICES (MAINLY OIL) FOR BELGIUM'S CURRENT BOUT OF INFLATION, AND POINTS TO THE FACT THAT

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BRITAIN, FRANCE AND ITALY ALL HAVE HIGHER RATES, IT DOES

NOT FEEL THAT RESTRICTIONS N BELGIUM'S FOREIGN TRADE ARE AS FEASIBLE WAY TO FIGHT INFLATION. IN THE ECONOMY OF A RELATIVELY SMALL COUNTRY WHERE AN AMOUNT EQUAL TO 40 PERCENT OF GDP IS BOTH IMPORTED AND EXPORTED, RESTRICTIONS ON FOREIGN TRADE WOULD NOT, IN THE GOB'S VIEW, BE PROMISING ANTI-INFLATION MEASURES.

4. THE GOB, THEREFORE, CONSIDERED THE POSSIBILITIES OF USING PRICE CONTROL, FISCAL, BUDGETARY AND OR MONETARY WEAPONS. ALTHOUGH NOMINALLY USING ALL THESE WEAPONS, IN LARGE PART BECAUSE ITS CONSERVATIVE ECONOMIC ATTIDUES, THE CURRENT GOB HAS CHOSEN TO RELY HEAVILY ON BUDGET RESTRAINT WITH A SECONDARY ROLE ASSIGNED TO MONETARY MEASURES. LITTLE OF SIGNIFICANCE WLL BE DONE BY PRICE CONTROLS OR WITH TAX MEASURES.

5. THE 1975 ORDINARY BUDGET WILL BE NO LARGER THAN THE 1974 BUDGET EXCEPT WHERE INCREASES TO REFLECT HIGHER PRICES ARE LEGALLY REQUIED, E. G., UNEMPLOYMENT BENEFITS. THE " SUPPLEMENTAL BUDGET" FOR 1974 ( IN BELGIUM FREQUENTLY VERY LARGE) WILL BE LIMITED. THE CAPITAL BUDGET ALLOCATIONS FOR PUBLIC WORKS IN 1975 WILL ONLY BE ALLOWED THE RISE FROM 62 BILLION FRANCS TO 77 BILLION AND EXPENSES ON PUBLIC WORKS WILL BE CHanneLED TOWARD DEPRESSED AREAS.

6. MONETARY MEASURES, UNDER THE NEW PROGRAM, WILL PRIMARILY RELY ON ASKING THE NATIONAL BANK TO LOWER THE CREDIT CEILINGS IT NOW IMPOSES ON BANKS AND BY ASKING IT FURTHER TO LIMIT ITS ADVANCES TO BANKS. CONSUMER LOANS (TIME PAYMENTS) WILL BE FURTHER RESTRICTED AN LARGER DOWN PAYMENTS WILL BE REQUIRED.

7. THE GOVERNMENT WILL, FOR THE FIRST TIME, WEIGH THE POSSIBILITY OF USING THE RATIONING OF BUILDING PERMITS AS AN ANTI- CYCLICAL DEVICE. CLOSER CONTROL OF CONSTRUCTION LOANS FROM SAVINGS BANKS AND INSURANCE COMPANIES WILL BE TIED TO THE NEW BUILDING PERMIT PROGRAM. PARTICULARLY TIGHT CONTROLS ARE ENVISIONED FOR VACATION HOMES AND OFFICE BUILDINGS.

8. PRICE CONTROL ON SOME ITEMS, E. G., PETROLEUM PRODUCTS,  
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WILL CONTINUE IN EFFECT ALTHOUGH AN EFFORT WILL BE MADE TO INSERT MORE FLEXIBILITY INTO THE SYSTEM.

9. IN AN EFFORT TO USE " JAW-BONING", THE PUBLIC WILL BE ASKED TO DEFER AS MANY PURCHASES AS IT CAN AND INTEREST PAID TO SMALL SAVERS WILL BE MADE TAX FREE ON ACCOUNTS UNDER FOUR HUNDRED DOLLARS.

10. COMMENT: THE GOB IS FULLY AWARE THAT THESE NEW MEASURES HAVE LITTLE CHANCE OF SUCCESS UNLESS BELGIUM'S COMMON MARKET PARTNERS ESTABLISH SIMILAR PROGRAMS. EVEN THEN, THE BEST BELGIUM CAN HOPE FOR WOULD BE A RETURN IN THE NEXT 12 MONTHS TO A "GERMAN" INFLATION RATE (6.7 PERCENT) BECAUSE BELGIUM'S ECONOMY IS, IN GREAT PART, INTEGRATED INTO THE BIGGER EC ECONOMY. BOOCHEVER

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